



State of Rhode Island and Providence Plantations

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Donald L. Carcieri
Governor

October 29, 2009

Elia Germani, Chairman
Paul J. Roberti, Commissioner
Mary E. Bray, Commissioner
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, R.I. 02888

RE: Review of Proposed Town of New Shoreham Project Pursuant to R.I.
General Laws 39-26.1-7, Docket No. 4111

Dear Chairman Germani and Commissioners Bray and Roberti:

I am writing to support and encourage the Commission in its important role in this proceeding to facilitate, as soon as reasonably possible, a long-term contract between National Grid and Deepwater Wind for the development of an off-shore renewable energy wind project to be located off the coast of Block Island specifically designed to help the citizens and economy of Rhode Island.

During its 2009 session, the General Assembly passed, and I signed into law, legislation to advance the development of new renewable energy resources through "commercially reasonable long-term contracts between electric distribution companies and developers." This landmark legislation was the culmination of more than two years of intense negotiations between the Executive and Legislative branches of government, as well as various other stakeholders and interested parties. In fact, it is this legislation that authorizes this very proceeding, and thus prompted me to write to you today.

In passing the Long-Term Contracting Standard for Renewable Energy, the State made a public policy decision to foster renewable energy development with the goals of "stabilizing long-term energy prices, enhancing environmental quality, creating jobs in the Rhode Island renewable energy sector, and facilitating the financing of renewable energy generation" that provides direct economic benefits to the State.

I believe it is important to consider all of these policy objectives – energy, environmental and economic development – when evaluating an eventual contract between Deepwater Wind and National

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Grid for the Block Island off-shore wind demonstration project. It is equally important to recall that these enumerated objectives are consistent with previous legislative enactments, including the Renewable Energy Standard (RES) (R.I.G.L. Chapter 39-26), which reads in part: "the people and energy users of Rhode Island have an interest in having electricity supplied in the state from a diversity of energy sources including renewable sources" (R.I.G.L. §39-26-1). The RES requires public utilities to purchase 16 percent of the state's power supply from renewable energy sources. The long-term contracting law reinforces the RES, and further states that projects providing direct economic benefits to Rhode Island are the means to accomplishing the State's policy goals.

In previous decisions, the Commission has cited RES as evidence that "the General Assembly has set forth a policy to encourage investment in renewable energy supply." It went on to say that, "according to developers, commitments to purchase the energy are important for the financing of renewable energy development. (Docket No. 3659). In a subsequent order, the Commission reiterated its position and stated that "long-term contracts will be necessary for the success of the renewable energy supply." (Docket No. 3765). In short, the legislative record and the Commission's reading of that record are clear – long-term contracts for the purchase of renewable power are desirable and necessary in order to stabilize energy prices and grow a green industry domestically.

I am hopeful that such a clear statement of legislative intent will persuade all parties to work for the advancement of its goals, including Rhode Island's primary electric distribution company, National Grid. Rather than purchasing renewable power from New York and elsewhere, I urge them and the Commission to help Rhode Island grow its nascent renewable energy sector into a vibrant, innovative and job-creating industry.

The issue before the Commission is not whether the State should mandate National Grid to enter into long-term contracts for renewable energy development, but how to structure the contract in a way that protects ratepayers, while meeting the other enumerated goals – economic and environmental.

Make no mistake: I too believe that the energy price presently contained in the proposal before the Commission is excessive. I have always stated that I support cost-effective renewable energy, not renewable energy at any cost. That being said, I further believe that there are contributors to that price that are driven by National Grid's procurement process, not necessarily by the law.

I have always understood that creating a long term contract for the purchase of renewable energy for the energy needs of Rhode Island would not be easy and would require careful analysis and negotiation. Worthwhile and innovative endeavors are never easy, and thoroughness is appropriate. However, I also knew that a contract would be necessary, and might require the Commission's oversight and expertise to achieve. In fulfilling that role, I hope the Commission will look beyond price alone during its deliberations in Docket 4111 and will evaluate commercial reasonableness based on the myriad aspects of this proposal and the context of its submission, specifically that it is a demonstration project for wind power.

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The public policy of the State is to support long-term contracts for “newly developed renewable energy resources” that are consistent with the policy objectives discussed above. The State believes that such contracts can serve as a hedge against the volatile prices of fossil fuels, and therefore provide more stability to our residential, industrial and commercial ratepayers. The Block Island project was proposed as a specific carve out in the recently enacted legislation, because policy makers believe the Town of New Shoreham should benefit from lower electricity rates, but also because the State believes the project can and will be an important demonstration project that will prove out the feasibility and commercially reasonable nature of this resource, and fulfill the promise and future that off-shore wind electric generation will bring to our ratepayers and economy.

If the State is ever to reach its goal of acquiring 16 percent of its electricity from home grown renewable energy projects, it must stop talking and start acting. Rhode Island has limited indigenous energy resources, but an abundance of wind just off our shores. Until that precious resource is tapped and utilized, Rhode Island will make little or no progress in advancing its goals of stabilizing energy prices and growing jobs – both critically important. A necessary step in achieving these goals, and in any great endeavor no matter how big or small, is the first one. That is why I believe it is critically important that Rhode Island’s first foray into this area be a relatively small scale off-shore wind project. The proposed project is large enough to put Rhode Island on the map as a leader in this \$50 billion industry, and small enough to mitigate potential risks to ratepayers, the developer and the State’s utility monopoly. The Block Island project will serve to demonstrate this concept, a very important step in an industry that is often adverse to risk and innovation. Developers and regulators alike can learn best practices and better prepare for the utility scale projects.

In addition, because the proposed project is a demonstration project, it must be remembered that the economics of the project are far different than would occur with a subsequent, utility scale project. The price negotiated here for a long term contract should in no way be viewed as establishing a precedent or indicating what the energy price may be in connection with future wind energy projects. What is commercially reasonable with respect to this project and what is commercially reasonable with respect to future projects are very different matters.

I understand there remain some important matters, such as cable ownership; size of the project, etc. that will require further negotiation, and I am hopeful that Deepwater Wind and National Grid will continue to sit at the negotiating table. I am confident the Commission will do everything in its power to further encourage, facilitate and if necessary arbitrate the terms of a long-term power purchase agreement that is commercially reasonable, stabilizes energy prices, enhances environmental quality and makes Rhode Island a leader in the emerging green economy.

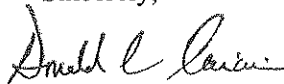
The Commission has in the past stepped forward to take on new challenges in the electric industry, such as the implementation efforts required to satisfy landmark legislation which restructured the industry a decade ago. The Commission, once again, is now called upon to use its expertise over utility matters to ensure that a long-term power purchase agreement for a first-of-its kind renewable energy project is implemented.

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As I stated when this law was enacted, this important effort will accelerate our efforts to be the first state in the nation to take our energy needs into our own hands, through the development of clean, sustainable renewable energy off our shores. This legislation places Rhode Island at the epicenter for renewable energy on the East Coast, where we have estimated planned projects (beginning with this Block Island project) to produce well over \$1.5 billion in private investment in Rhode Island and the creation of a minimum of 800 jobs with estimated annual wages of \$60 million. The Block Island project is the first step toward energy security as well as achieving our environmental and economic goals. Our focus must be to ensure that the long term contract between National Grid and the developer is completed expeditiously.

I will make my administration fully available to assist in any way needed so that we can together fulfill the goals of this important effort to lead the way toward the development of renewable energy projects for the benefit of Rhode Island. I know you will move forward as quickly as possible to resolve this critical matter.

Sincerely,

A handwritten signature in dark ink, appearing to read "Donald L. Carcieri", written in a cursive style.

Donald L. Carcieri
Governor

cc: The Honorable M. Teresa Paiva Weed, Senate President
The Honorable Daniel P. Connors, Senate Majority Leader
The Honorable Dennis L. Algiere, Senate Minority Leader
The Honorable William J. Murphy, Speaker
The Honorable Gordon D. Fox, House Majority Leader
The Honorable Robert A. Watson, House Minority Leader